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### Audit Committee's Roles & Effectiveness: Evidence from Indonesia

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**Abstract:** Financial statement manipulation that still occurring nowadays in Indonesia leads the following issue of how audit committee's functioning within a corporation. This study questions whether audit committee has certain significant role as stated by OJK or just a formality to obey the regulation set by the government. Therefore, this research analyzes the audit committees' effectiveness in Indonesia by using POJK No. 55/POJK.04/2015 as the basis of measurement. To examine the audit committee's effectiveness, this research gathers primary data by distributing a questionnaire to audit committee's in listed companies in Indonesia and to Ikatan Komite Audit Indonesia (IKAI). Based on the responses, the data is then analyzed by using the SEM-PLS approach. It is found that audit committee diligence in audit and decision-making areas significantly increases the audit committee activity. Moreover, audit committee activity and responsibility in internal audit, regulatory compliance, and risk management significantly influence the audit committee's effectiveness.

**Keywords:** Audit Committee, Audit Committee Effectiveness, Good Corporate Governance, Internal Control, Risk Management.

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### Introduction

Otoritas Jasa Keuangan (OJK) as the regulator of financial services in Indonesia has established various regulations that support the process of implementing corporate governance in Indonesia. This is done as a form of regulatory support in improving the quality of corporate governance in every business environment in Indonesia. Corporate governance is meant as a set of systems that involve various relationships in a company, ranging from management, the board of directors, the board of commissioners, and various other stakeholders. The purpose of governance implementation is to facilitate the goals

achievement within an organization with the implementation of structure and supervision (OECD, 2015).

Corporate governance also creates a set of directions and guidance in ensuring the process of achieving company goals by increasing value for stakeholders on an ongoing basis while still ensuring accountability (KNKKG, 2021). Along with the implementation process, of course, it involves many parties in carrying out the process, ranging from the board of commissioners, the board of directors, the audit committee, the management, and various other stakeholders. With this importance, OJK has also implemented a set of rules for each party, including the audit committee. The audit committee is described as a committee formed under the authority of the board of commissioners, where the purpose of the audit committee is to help carry out the responsibilities and functions of the board commissioner (POJK No. 55, 2015).

However, financial statement manipulation and fraud cases inevitably still occurring in Indonesia show that deficiencies still arise despite the implementation of good corporate governance in Indonesia's corporations. Many cases of fraudulent financial statements in Indonesia happened especially in state-owned enterprise (SOE), which recently detected in Indofarma and Kimia Farma subsidiaries as stated in Kompas.id (Nugraha, 2024). Fraudulent activities have been detected in the companies which lead to consecutive losses. This phenomenon raises many questions among the public, to how the governance been managed and observed in each corporation.

Regarding this finding, Otoritas Jasa Keuangan highlights the importance of transparency and implementation of good governance within an entity, which is related to the policies of internal audit function and audit committee within companies based on report from Antaranews.com (Khaerunnisa, 2024). This phenomenon leads to a significant issue regarding how effective is the role of audit committee within a business entity? Do they really perform their oversights and responsibility in running their business operations? Several studies from Indonesia stated that several companies might have form audit committee just for law and regulation fulfillment, just for a formality, without realizing the importance of audit committee (Sari et al., 2021; Setiawan & Ridaryanto, 2022). Therefore it is important to assess the audit committee's role and effectiveness to ensure whether their role is only as a formality for not breaking the rules or they play the role and responsibility as guided by OJK.

Peraturan Otoritas Jasa Keuangan (POJK) / Financial Services Authority Guidelines Number 55 of 2015 regulates matters associated to the implementation of the audit committee's duties, including the composition, structure, terms and requirements, authority, responsibility, also the Audit Committee Charter. Several areas of audit committee oversight within a company include internal audit, external audit, financial statements, regulatory compliance, and risk management. The audit committee's presence is expected to provide value-added quality of supervision in those five areas, considering the responsibilities owned by the audit committee as what is stated in POJK No. 55/POJK.04/2015. Based on this oversight, OJK stated the audit committee's role handles broad roles in each corporate's governance. This research tries to analyze their roles' effectiveness and oversight in Indonesia companies.

Nonetheless, some previous studies have tried to describe and explore how the audit committee carries out its responsibilities and roles during its tenure in a company. Contrary

to the roles and responsibilities of the audit committee, these previous research state that the role of the audit committee in corporations tends to be ceremonial and just for fulfilling the legal requirement (Brennan & Kirwan, 2015; Oussii et al., 2019; Sulaiman, 2017). This is certainly contrary to the provisions governing the GCG implementation and audit committees in Indonesia. This phenomenon leads to this research's purpose, which tries to analyze how effective are the audit committee's roles and functions, to assess whether the functions carried out by the audit committee in Indonesia are indeed effective.

The study also studied audit committee effectiveness measurements from previous studies and adopted measurements by (Dezoort et al., 2002) that measured effectiveness based on four key components. This study focuses on two of the four indicators in assessing the audit committee's effectiveness, namely diligence and responsibility. Diligence is measured to see how involved the audit committee is during its tenure, especially in audit and decision-making areas. Responsibility is certainly measured to ensure that the rules set by OJK have been carried out, and for this research five areas of supervision are explored, internal audit, external audit, financial statements, compliance, and risk management.

The audit committee's roles and functions have been reviewed in several previous studies, but mainly using the method of either a literature review or using interview. On the other hand, studies in Indonesia have not discussed this phenomenon deeply, which usually they tried to discuss the audit committee's effectiveness by using secondary data from both annual reports and financial statements based on prior research, which they assessed the size, the portion of independent audit committee, or self-assessment based on annual reports disclosure (Karina & Sufiana, 2020; Pontoh et al., 2021; Utami & Diyanty, 2015). One main novelty of this study is that this research becomes the first to measure the audit committee's in Indonesia by using primary data sources using questionnaires distributed directly to the audit committee.

## **Literature Review**

### ***Audit Committee through Agency Theory***

The basic theory that is widely used by researchers related to audit committees is agency theory (Buallay & Al-Ajmi, 2019; Hendrati et al., 2023; Islam et al., 2023). The audit committee's roles can be traced based on theoretical background proclaimed by Jensen & Meckling (1976) which states that conflict of interest arises between the principal as the owner or in the business context the shareholders who act as the company's owners, with agents or the management, which also known as the agency theory. This is due to information asymmetry, or inequality in the availability of information resulting from how shareholders have more limited access compared to the management that always observes within the company. In addition, agency theory assumes that each party equally becomes a wealth maximizer, with the focus on enriching itself. This conflict of interest can create agency issues that can be detrimental to the organization as a whole. Therefore, agency costs are needed in addressing the problems that may arise.

There are three main categories of agency costs: monitoring cost, bonding cost, and residual loss. Monitoring costs are costs emerge by the principal to supervise and ensure that agents do not make risky and harmful decisions that threaten the organization. The form of application of cost monitoring is the conduct of audits, both internal audits and external

audits. Bonding costs are costs bear by the agent with the main purpose of limiting the agents from making decisions adversely such as committing fraud. One example of its application is by implementing Standard Operating Procedures (SOPs) and requiring the management to prepare financial statements. Meanwhile, a residual loss is a cost that is borne as a result of agency problems that cannot be prevented completely.

Audit committees exist as a part of monitoring costs (Al-Faryan & Alokla, 2023; Nurrizkiana et al., 2024; Sherif et al., 2024), and their responsibility is to monitor the management (Abraham et al., 2024a; Shehadeh et al., 2024). Referring to POJK Number 55 of 2015, the audit committee is a committee established under the authority of the board of commissioners, where the purpose of the audit committee is to help and assist with the duties and functions of the board of commissioners. The audit committee is explained by KNKG as a supporting committee of the board of commissioners in General Guidelines of Good Corporate Governance Indonesia (2006:15) with the duty of assisting the board of commissioners by ensuring that: financial statements have been presented reasonably by adhering to generally accepted accounting standards; the internal control framework of the business has been well executed; and the performance of both internal and external audits has been carried out, and also the follow-up from both audits findings by management.

### ***Audit Committee Effectiveness***

According to IFC (2018), the audit committee is an organ that carried a significant role in accomodating the board of commissioners in performing their responsibilities, namely supervising and assessing how adequate and effective risk management, financial statements, control, and governance have been implemented in the corporate environment. Therefore, the audit committee's effectiveness becomes a major concern in the implementation of good corporate governance in the company (Ahmed, 2023; Appiagyei et al., 2023; Jameel et al., 2024). After the accounting scandal, the issue of their effectiveness began to become a special concern for stakeholders. However, the measurement is still limited by the accessibility of primary data, proven by how several previous studies focused on audit committee's attributes (Al-Shaer et al., 2017; Deslandes et al., 2019; Lin et al., 2006; Wan Mohammad et al., 2022).

Some previous studies (Ghafran & O'Sullivan, 2012; Masli et al., 2022; Rochmah Ika & Mohd Ghazali, 2012) measuring the effectiveness of audit committees rooted from Dezoort et al., (2002), which state four main components in examining of the audit committee's effectiveness, including composition, authority, resources, and diligence. Composition refers to personal profiles held by the audit committee, such as capabilities and abilities (Abraham et al., 2024b; Firoozi & Magnan, 2022; Gandhi & Solanki, 2024), independence (Al-Hadrami et al., 2020; Wan Mohammad & Wasiuzzaman, 2019; Zhang et al., 2023), educational background (Broye & Johannes, 2023; Mawardi et al., 2022; Weber, 2020), and experience (Boonlert-U-Thai & Suttipun, 2023; Li et al., 2021; Rahman et al., 2023). Authority refers to the responsibilities owned and carried out by the audit committee during its tenure in a company. This responsibility refers to the regulations stipulated in POJK Number 55 of 2015 as well as the regulations set by each company.

Resources refer to the audit committee's size, which has also been regulated in POJK Number 55 of 2015. Diligence refers to how an effectual audit committee needs to be active as well as heavily involved during its tenure within the company. Dezoort et al., (2002) explained diligence is the audit committee's readiness to plan and organize, ask questions,

and come up with solutions while working with management, both internal auditors and external auditors, and other parties.

### ***Audit Committee Diligence***

Audit committee diligence can be examined through how the audit committee participates in the decision-making process within the company, namely as a party that contributes in the business decision-making process within the company (A. Almaqtari et al., 2020; Alsayani et al., 2023; Alsheikh & Alsheikh, 2023; Hamdan, 2020; Nerantzidis et al., 2023; Velte, 2023a, 2023b). The analysis and evaluation provided by the audit committee in each decision-making process will become more optimal. Salleh & Stewart (2012) shows that audit committees also have a role outside of regulations or obligations that have been established as mediators and advisors where the audit committee provides advice and advice in the decision-making process.

Not only that, research conducted by Lee (2014) shows that as many as 49% of audit committees in China act and involve themselves as decision-makers. Therefore, the informal function performed by the audit committee is to help as an advisory consultant for the company. The decision-making process within the company will be more optimal, supported by the audit committee's role as a decision-maker advisor for the management.

- **H1:** Audit committee diligence in decision-making areas positively affects audit committee activity

The audit committee's diligence focuses on the audit quality within a corporation. Therefore, the audit committee requires to be participated in the audit process carried out within the company, which done by their monitoring. Research done by Kalelkar (2016) shows that the audit committee's activity increases in the audit engagement process. Therefore, the more involved the audit committee is in the audit areas within a business environment, the more activities will be organized by them. Research by Bananuka et al., (2018) on 52 companies in Uganda shows that the dominant function of the audit committee is as the internal auditor of the company, where accountability is assessed to improve with the audit committee's existence. Audit, evaluation, and monitoring function increases along with the existence of the audit committee within a company. It is very important where audit exist to ensure the gap between agent and principal, according to the agency theory. Therefore, it can be concluded that with the audit committee involved in the audit process of the company, the more active their involvement within the company.

- **H2:** Audit committee diligence in audit areas positively increases audit committee activity

### **Audit Committee Effectiveness**

When the audit committee responsibly carries out its role, their effectiveness will increase. Their effectiveness cannot only be measured by the responsibilities and authorities it has, but also by the involvement and activities it carries out. Some previous studies (Ghafran & O'Sullivan, 2012; Masli et al., 2022) found the audit committee's activities and involvement has a significant effect on its effectiveness. Along with the fulfillment of their roles and responsibility, it is hoped that their roles' effectiveness also increases, as stated by OJK

before. OJK has stated that audit committee's existence is also to ensure the corporate good governance implementation. Therefore, the increasing involvement of the audit committee will increase their effectiveness on how their functions are carried out within the company.

- **H3:** Audit committee activity positively increases audit committee effectiveness

Diligence may increase the audit committee's effectiveness; however, another important aspect is its responsibility. The responsibility that have to be carried out by the audit committee referring to POJK Number 55 is to oversight the company's internal audit activities, this of course aims to maintain and enhance the quality of internal audits. Previous research (Ghafran & O'Sullivan, 2012) reviewing various previous research on the responsibilities of audit committee states that audit committees have a significant influence in expanding the independence of internal audits of companies. Another research (Alzeban, 2015) also explains that the audit committee's function is very important in improving the quality of internal audits, namely in terms of the conformity of internal audits with applicable standards. Therefore, the conclusions can be drawn that by fulfilling their responsibilities on the company's internal audit will increase the audit committee's effectiveness.

- **H4:** Audit committee's responsibility in monitoring internal audits positively influences the audit committee effectiveness

Komal et al., (2022) discussed the audit committee and its various responsibilities through a literature study, one of them is the external audit. It is explained that the audit committee in China has an opposite correlation with audit costs, audit opinions, as well as the level of audit delay. On the other hand, Sudjono & Setiawan (2022) find that the audit committee's size does not affect audit delay. More deeply related to this, previous research by Sulaiman & Mat Yasin, (2021) showed that the responsibilities and authorities possessed by the audit committee are useful in monitoring external audits and asking external auditors to follow the provisions desired. This shows that the audit committee's function in the supervisory aspect of the external audit process may positively influence their effectiveness. As their oversight regarding the quality of external audit, it is hoped to increase the company performance along with the implementation of good governance through audit committee's roles, which shows their roles' effectiveness.

- **H5:** Audit committee's responsibility in monitoring external audits positively influences the audit committee effectiveness

The research of Sil Kang et al., (2011) with a total sample of 288 micro and medium-sized companies shows that the audit committee's presence in the organizational structure and its characteristics indicate a strong opposite relationship with profit management. This shows that their oversight of the aspect of financial statements and accounting will increase the audit committee's effectiveness, where the audit committee's presence influences the financial statements quality, which is accuracy as well as integrity.

Another research by Almarayeh et al., (2022) shows that the audit committee's independence influences the company's profit management, but other attributes such as size, expertise, and meetings do not have a strong relationship with profit management in companies in Jordan. This proves that the audit committee's evaluation of the financial statements will improve their roles' effectiveness. Despite this specific role may be performed intensively by external

auditor, however when audit committee's perform detailed checking on management's financial statements, it certainly improves their effectiveness on corporate governance fulfillment.

- **H6:** Audit committee's responsibility in monitoring financial statements positively influences the audit committee effectiveness

Another responsibility held by the audit committee referring to POJK Number 55 of 2015 is to assist the company in complying with applicable regulations and laws. Based on interviews conducted in previous research (Martinov-Bennie et al., 2015), audit committees in Australia have also explained that the development of audit committee responsibilities can lead to compliance from companies, whereas later audit committees can relate to compliance committees. As laws and regulations play dynamic roles within corporation, it is very important for audit committee to keep aware of updates regarding laws. With the constant review and evaluation by the audit committee on the company's legal and regulatory compliance, the audit committee's function will become more effective.

- **H7:** Audit committee's responsibility in monitoring regulatory compliance positively influences the audit committee effectiveness

The dynamic evolution of the audit committee's responsibilities also expands its area of responsibility, one of which is the risk management aspect. Referring to the rules that have been set by the OJK, one of the responsibilities is to oversight risk management activities that have been carried out by the company. Previous research (Martinov-Bennie et al., 2015) discussed that based on interviews conducted with audit committees in Australia, there is a shift where audit committees not only have the responsibility for audit and financial accounting aspects but also assume responsibility for the company's risk management process. Moreover, previous studies (Ashfaq & Rui, 2019; Sudjono & Setiawan, 2022b) with different measurements of risk management and internal control dimension prove that audit committee size significantly influences the internal control disclosure in annual reports.

Another research by Khemakhem & Fontaine (2019) also conducted interviews related to the audit committee's role to auditors, directors, and the audit committee members, it was also explained that their role is very important in reviewing the risk management process to support business performance. Therefore, the function of the audit committee will become more effective if responsibilities related to risk management supervision are carried out.

- **H8:** Audit committee's responsibility in monitoring risk management positively influences the audit committee effectiveness.

## **Methodology**

This research uses a hypothetico-deductive research approach, which is a study that uses a scientific approach in increasing knowledge in solving fundamental problems and managerial problems. This research is also a causality study, which is a study that tests whether a variable causes changes from other variables (Sekaran & Bogie, 2016). This study analyzes the correlation between the audit committee's diligence, responsibilities fulfilment, and their effectiveness.

This study used questionnaires as a primary data collection technique, which were distributed to audit committees in companies established in Indonesia. The sampling technique uses a purposive sampling technique, which is sampling sourced from a specifically targeted group (Sekaran & Bogie, 2016). Sample selection is carried out based on certain criteria, (1) audit committee that is or has served as an audit committee of a corporation in the last 7 years, considering POJK regulations Number 55 which was ratified in 2015 and serves as an audit committee in a company established in Indonesia. Questionnaires have been distributed to 224 corporate secretary email addresses recorded in the FactBook attached to the idx.co.id website. In addition, questionnaires are also entrusted to the Indonesian Audit Committee Association (IKAI) and distributed directly to the audit committees.

The number of final respondents that were then processed was 48 respondents. Data processing is carried out with the PLS-SEM approach, which is useful in estimating complex models, various indicators of a variable, and path structure between variables without requiring distribution assumptions in existing data (Hair et al., 2017). PLS-SEM approach also useful in processing with small size of samples. The assessment criteria for the PLS model are divided into two main assessments, the examination of the inner model and the outer model.

There are several statistical tests used in this study, including descriptive statistical tests used to provide an overview of respondents' profiles. Outer model tests are also carried out by observing the convergence validity, the discriminant validity, and the reliability of the constructs. After the outer model test is carried out, the next step is to conduct the inner model test which is carried out to see the collinearity test, hypothesis test, coefficient of determination test, and magnitude of impact by observing the f square and testing the prediction models.

Hair et al. (2017) explained that in the PLS-SEM-based research model, there are two categories of variables, which are exogenous variables and endogenous variables. Exogenous variables are variables that have a role either only as an independent variable or both as the independent and dependent variables. The exogenous variables in this study are decision-making diligence, audit diligence, audit committee activity, internal audit oversight, external audit oversight, financial statements oversight, regulatory compliance oversight, and risk management oversight. The endogenous variable is a variable that has a role only as the dependent variable, like the variable of audit committee effectiveness in this study. Table 1 below demonstrates the operationalization for each variable.

**Table 1. Variables Operationalization**

<b>Variables</b>	<b>Indicators</b>	<b>Source</b>	<b>Variable Code</b>
Decision-Making Diligence	a. Consultation Frequency	Adopted from POJK	DMD
	b. Recommendation Frequency	No. 55/POJK.04/2015	
	c. Code of Conducts Existence		
Audit Diligence	a. Inspection Frequency	Adopted from POJK	AD
	b. Suggestions based on Audit Findings	No. 55/POJK.04/2015	
	c. Financial Statements Assistance & Monitoring		

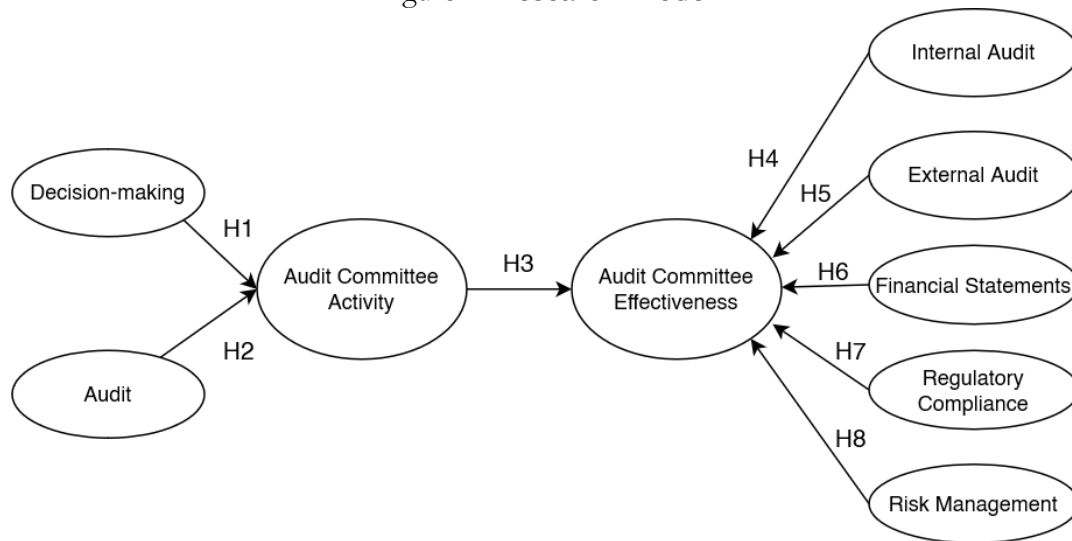


<b>Variables</b>	<b>Indicators</b>	<b>Source</b>	<b>Variable Code</b>
Audit Committee Activity	a. Purpose of the Audit Committee b. Benefits of the Audit Committee	Adopted from POJK No. 55/POJK.04/2015	ACA
Internal Audit Oversight	a. Supervision of the Internal Audit Unit b. Reviewing Audit Reports and Making Recommendations c. Board of Directors Follow-up on Internal Audit Unit Findings d. Meeting with Internal Audit Unit e. Objectivity and Independence of Internal Audit Unit	Adopted from POJK No. 55/POJK.04/2015 and Annual Reports	IntAu
External Audit Oversight	a. External Auditor Recommendations to the Board of Commissioners b. External Auditor Evaluation c. Providence of Independent Opinion d. Objectivity and Independence of External Auditors e. Supervision of the Board of Directors' Follow-up	Adopted from POJK No. 55/POJK.04/2015 and Annual Reports	ExAud
Financial Statements Oversight	a. Evaluation of Conformity with Accounting Standards b. Reliability and Objectivity c. Review and Examination of Complaints	Adopted from POJK No. 55/POJK.04/2015 and Annual Reports	FS
Regulatory Compliance Oversight	a. Review of the New Regulations b. Socialization and Special Meetings c. Training/Seminar/Workshop	Adopted from POJK No. 55/POJK.04/2015 and Annual Reports	RegCom
Risk Management Oversight	a. Review and Review of Risk Management b. Joint Meeting with Authorities c. Objectivity and Independence of Risk Management Activities	Adopted from POJK No. 55/POJK.04/2015 and Annual Reports	Risk
Audit Committee Effectiveness	a. Self-Assessment by the Audit Committee b. Evaluation of Effectiveness by the Company	Adopted from POJK No. 55/POJK.04/2015 and DeZoort (2002)	ACE

Variables	Indicators	Source	Variable Code
	c. Company Evaluation System		
	d. Understanding of the Responsibilities of the Audit Commission		
	e. Frequency of Fulfillment of Responsibilities		

With a total of 9 variables being analyzed in this research, there are a total of 8 hypotheses developed based on the relation among the variables. Figure 1 below demonstrated all hypotheses developed in this study.

Figure 1. **Research Model**



## Findings

### *Respondents' Profile*

This research analyzed the audit committee's responses with a total of 48 responses being received. The respondents' profiles are shown in Table 2 below. When viewed based on gender, respondents consisted of 39 people or about 81% were men while 9 people or about 19% were women. Previous research that also distributed questionnaires to audit committees found that the respondents is dominated by men with a total of more than 80% compared to female audit committees (Iyer et al., 2012). Age was reviewed based on the generation of the respondents referring to the study (Bencsik et al., 2016). There is a total of 7 respondents who are in the age range of 27-41 years or what is also called generation Y. Respondents to this questionnaire are dominated by generation X, namely those in the age range of 42-61 years, reaching 50% of the total respondents. At the next level, namely the baby boomer generation, there are a total of 16 respondents. The last one, namely the veteran generation, there is a total of 1 respondent.

From the dimension of the education level, the audit committees have taken the postgraduate education level, as evidenced by the dominant number compared to other indicators, which reached 73%. At the undergraduate level, there are 12 people or about 25%, and there is 1

person or about 2% in the others category. The graph below shows the distribution of respondents' education levels. Regarding the educational aspect, the educational background of the audit committee most likely to come from the field of economics/business/accounting education, which even reaches 98%. While the remaining 2% comes from the field of engineering education. The following bar graph shows the distribution of the education levels of the audit committee respondents to this study.

Regarding the period of service as an audit committee, can be seen that 8% of respondents have tenures under 1 year, 67% of respondents have tenures within the range of 1-5 years, 17% have the term tenures of 6-10 years, 2% have served for 11-15 years, 7% have served more than 15 years. The last dimension, which mainly focused on work experience, is divided into three categories of answers. 81% of respondents have had more than 20 years of work experience, 13% have 11-15 years of work experience, 4% of respondents have 16-20 years of work experience, and the remaining 2% have 1-5 years of work experience. The length of experience working in this discussion does not include the experience of respondents while serving as the audit committee. The experience of the audit committee is essential in improving their efficiency, which also affects the efficiency of corporate governance (Alkebsee et al., 2021).

**Table 2. Respondents' Profile**

<b>Dimension</b>	<b>Indicator</b>	<b>Frequency (n)</b>	<b>Percentage</b>
Gender	Man	39	81.25%
	Woman	9	18.75%
Age	27-41 years old	7	14.58%
	42-61 years old	24	50.00%
	62-76 years old	16	33.33%
	>76 years old	1	2.08%
Educational Level	Bachelor's Degree	12	25.00%
	Postgraduate	35	72.92%
	Others	1	2.08%
Educational Background	Economy/Business/Accounting	47	97.92%
	Engineering	1	2.08%
Tenure	<1 year	4	8.33%
	1-5 years	32	66.67%
	6-10 years	8	16.67%
	11-15 years	1	2.08%
	>15 years	3	6.25%
Level of Experience	1-5 years	1	2.08%
	11-15 years	6	12.50%
	16-20 years	2	4.17%
	>20 years	39	81.25%

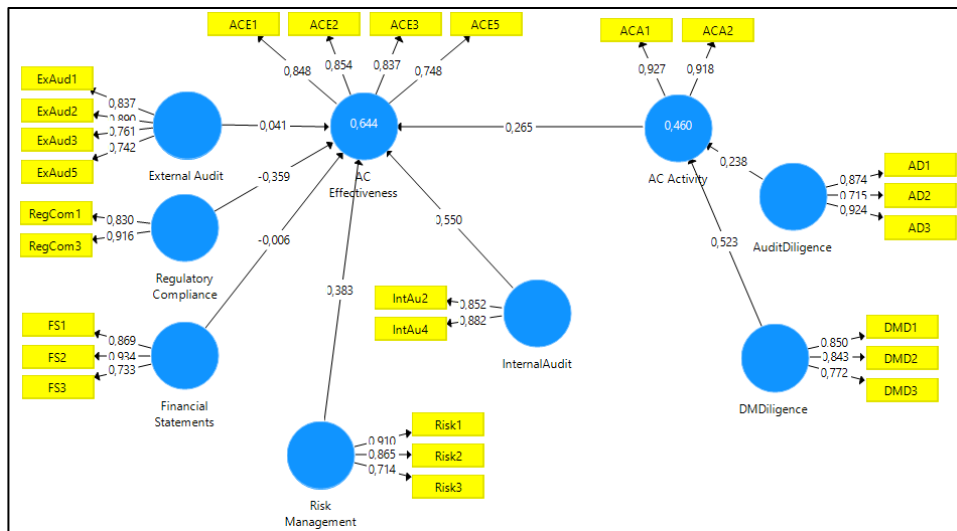
*Source: Primary data processed*

***Partial Least Square – Structural Equation Modelling Analysis***

The statistical analysis uses the PLS-SEM approach because the number of respondents is still small due to limited access to reach respondents. In addition, the PLS-SEM approach is used because this research model is relatively new to explore and involves more complex relationships. Complex relationships need to be analyzed using the PLS-SEM approach because one of the advantages is that it can analyze both direct relationships between variables and indirect relationships.

The data is processed with Smart PLS 3, which goes through various stages of measurement, ranging from outer model testing that measures convergent validity, and determinant validity, as well as reliability and inner model testing that measures the coefficient of determination and hypothesis testing. The following figure shows the initial model of this study, where each variable is arranged, and each variable has a variety of assessment indicators.

Figure 2. Final Model Data Processed



Source: Primary data processed

Measurement model evaluation in PLS-SEM is analyzed to ensure indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Indicator reliability is measured by using the other loadings for each indicator. Internal consistency reliability is measured by using composite reliability. While convergent validity is measured by using the average variance extracted (AVE).

Table 3. Measurement Model Evaluation

Variable	Composite Reliability	Average Variance Extracted (AVE)
AC Activity	0,920	0,851
AC Effectiveness	0,893	0,677
AuditDiligence	0,879	0,71
DMDiligence	0,862	0,677
External Audit	0,883	0,656
Financial Statements	0,885	0,721
InternalAudit	0,858	0,752
Regulatory Compliance	0,866	0,765

Source: Primary data processed

Table 3 above proves that this research model already fulfilled the internal consistency reliability, demonstrated by all the variables' composite reliability above 0,700. All the variables also have convergent validity, proven by the AVE which all have a value higher than 0,500. As for indicator reliability, all the indicators of this research model have an outer

loading value above 0,700. The next part of measurement in the PLS-SEM Model is the structural model evaluation. Table 4 below demonstrates the R-square test.

**Table 4. R-Square Test**

<b>Variable</b>	<b>R Square</b>	<b>Adjusted R Square</b>
Audit Committee Activity	0,460	0,436
Audit Committee Effectiveness	0,644	0,592

*Source: Primary data processed*

Audit committee activity is affected by about 43,6% of audit committee diligence in the audit and decision-making process. This also means 56,4% of the activity is influenced by other factors. As for the audit committee effectiveness, it is proven that 59,2% is affected by responsibility fulfillment and activity. However, there are 40,8% other factors affecting it. The indicators for the R Square Adjusted value are 0,25 for weak, 0,50 for moderate, and 0,75 for substantial (Hair et al., 2017).

The audit committee activity has a value that is above weak and near moderate. Moreover, the audit committee effectiveness has a value above moderate but below substantial. Continuing the structural model evaluation, Table 5 below demonstrates the hypothesis testing for both direct effect and indirect effect between variables.

**Table 5. Hypothesis Testing Results**

<b>Hypothesis</b>	<b>Original Sample</b>	<b>Sample Mean</b>	<b>Standard Deviation</b>	<b>T Statistics</b>	<b>P Values</b>
Direct Effect					
H1 Audit Diligence → AC Activity	0,2380	0,2465	0,1189	2,0012	0,0459**
H2 DM Diligence → AC Activity	0,5232	0,5264	0,0942	5,5513	0,0000***
H3 AC Activity → AC Effectiveness	0,2651	0,2763	0,1309	2,0245	0,0435**
H4 Internal Audit → AC Effectiveness	0,5499	0,5448	0,1893	2,9048	0,0038***
H5 External Audit → AC Effectiveness	0,0412	0,0516	0,1501	0,2743	0,7840
H6 Financial Statement → AC Effectiveness	-0,0059	-0,0038	0,1865	0,0319	0,9746
H7 Regulatory Compliance → AC Effectiveness	-0,3588	-0,3716	0,1816	1,9762	0,0487**
H8 Risk Management → AC Effectiveness	0,3829	0,3871	0,1785	2,1450	0,0324**
Indirect Effect					
Audit Diligence → AC Activity → AC Effectiveness	0,0630	0,0660	0,0470	1,3480	0,1780
DM Diligence → AC Activity → AC Effectiveness	0,1390	0,1500	0,0820	1,7000	0,0900*

\*p<0,10 (10%), \*\*p<0,05 (5%), \*\*\*p<0,01 (1%),

*Source: Primary data processed*

Based on the table above, can be seen that 6 from 8 main hypotheses are accepted with a significant rate below 5% (H1, H3, H7, H8), specifically two of the six accepted hypotheses are significantly below 1% (H2, H4). On the other hand, two hypotheses are rejected with p-values above 10% (H5, H6). As for the indirect effect, there are two relationships have been analyzed, one of them is significant at a 10% rate (DM Diligence → AC Effectiveness) and one of them is rejected (Audit Diligence → AC Effectiveness).

### ***Audit Diligence on Audit Committee Activity***

With a significance magnitude below 5%, the second hypothesis (H2) in the study is accepted. This proves that the activities conducted by the audit committee within the company certainly focus on business and legal aspects, including audit and financial statements. As well as the responsibilities regulated in POJK Number 55 of 2015, the audit committee in Indonesia has proven to be actively involved in the audit process carried out by the company, including following the development of audit standards and applicable accounting standards. The results of this study agrees several previous research results (Bananuka et al., 2018; Kalelkar, 2016) that found that the audit committee participates in the audit process conducted within the company by providing oversight, which is also a measure of how involved the audit committee is when serving in a company, which shows that the audit committee has activities as evidence of active participation in carrying out its role.

Indicators that represent the variables of audit committee participation in the audit process are the frequency of inspections/monitoring carried out by the audit committee, the frequency of providing advice or recommendation on audit findings, as well as the frequency of checking financial statements. All three show how actively involved the audit committee was while serving in the company. One main responsibility of the audit committee is to supervise and evaluate the company's audits quality, both internal and external audits.

Therefore, the audit committee becomes more involves in the audit process, which is seen from involvement in the audit process, providing advice based on audit findings, involvement in evaluating the process of preparing financial statements directly with management, and how audit committees follow the development of accounting and audit standards applicable in Indonesia. Furthermore, it is found that decision-making diligence also affects audit committee effectiveness indirectly, which shows how important it is for the audit committee to assist the management in decision-making areas to improve both firm's achievement and audit committee effectiveness.

### ***Decision-Making Diligence on Audit Committee Activity***

The processed statistics demonstrate that the audit committee's diligence in the decision-making process increases their activities. Therefore, the first hypothesis (H1) in this research is accepted. It is very essential for any audit committee to provide oversight and recommendation in the decision-making process within the company, in this case specifically focusing on business as well as legal, or legal, aspects. With the audit committee considering the business and legal decisions to be taken, the audit committee's activities are increasing.

This study's results support previous research which found that the audit committee's involvement can be proven by the implementation of roles beyond its responsibilities, in this case helping the decision-making process by providing advice as a business consultant (Lee, 2014; Salleh & Stewart, 2012). In this study, the involvement of the audit committee in the decision-making process is reviewed in terms of compliance with the law to ensure the continuity of implementing the principles of compliance with applicable regulations in supporting the decision-making process.

Their involvement in the decision-making process is reviewed from the frequency of consultations with management, the frequency of providing advice and recommendations, as well as the existence of a written code of ethics in the company. Although this has not been specifically stipulated in POJK Number 55 of 2015, with the audit committee always consulting and providing advice and input for the management, the involvement of the audit committee is becoming increasingly active within the company. A written code of ethics existence also supports their involvement, which is useful as a guideline for the audit committee's activities within the company.

### ***Audit Committee Activity on Audit Committee Effectiveness***

The third hypothesis in this study was also accepted which was found to be significant at the level of 5%. The more involved the audit committee is in committing its activity, the more effective the functions and roles it performs. The results are consistent with previous literatures which also found that the activities carried out by the audit committee gives a beneficial role in assessing their effectiveness (Ghafran & O'Sullivan, 2012; Masli et al., 2022).

The activity or involvement of the audit committee is very important in supporting their effectiveness within the company because the audit committee that is not involved certainly does not have an effective function. In this study, activity was measured by the purpose and benefits of the audit committee's existence in a corporation. The fulfillment of responsibilities is certainly important, but a more important measurement of effectiveness lies in how actively involved the audit committee within the company scope, which can be assessed definitively when the audit committee has a clear goal in carrying out its roles and responsibilities and providing positive added value benefits in the implementation process.

### ***Internal Audit Oversight on Audit Committee Effectiveness***

This research supports the results of previous research (Alzeban, 2015), which found the audit committee's role can improve the conformity of the internal audit process to applicable standards. This proves that the audit committee has a prime role in the internal audit process carried out within a business organization. The indicators that measure the fulfillment of the audit committee's responsibilities in the internal audit aspect include the review of audit reports and the provision of suggestions and the frequency of meetings with the internal audit unit. These two indicators directly describe what the audit committee does in the internal audit carried out within the company. By reviewing the audit report, they understands better regarding the internal audit findings and helps to find the reasonable solution. This is also supported by the many meetings held by the audit committee with the internal audit unit.

The Institute of Internal Auditors (IIA) in 2013 initiated a three lines of defense model that related to the process of sharing authority in handling risks and the application of control, the company's internal audit function functions as the third line of defense, which is tasked with providing an independent view or assessment of how effective the internal control system, risk management, and internal audits that have been carried out (Anderson & Eubanks, 2015). Their existence also strengthens and supports the internal audit unit's existence and functions. This is what was attempted to be unearthed in a previous study (Khelil et al., 2016). The internal audit function, referring to this study, can find conflicts of roles in it, that is, as guardians of confidential information from top managers so as not to be noticed by the audit committee.

This role conflict also arises from the perception of parties who question the quality of internal audits. This issue also shows how important the moral courage of the internal audit unit is in maintaining and ensuring the quality of internal audits. The audit committee needs to fulfill its responsibilities by building a forum and adequate means of communication in increasing the internal auditor's moral courage to report any discrepancies, as well as fraud found in the company. Therefore, it can be concluded with the internal audit unit which has an uninterrupted relationship with the audit committee and how the audit committee supervision proves to be adequate and implemented in real terms will help support the fulfillment of the audit committee's responsibilities to support their effectiveness.

### ***External Audit Oversight on Audit Committee Effectiveness***

Statistical processing results show the fifth hypothesis exceeds the significance limit so that the audit committee's obligation for external audit is found to not affect the effectiveness of the audit committee. External auditors are external parties who are beneficial in bridging principals and agents, with the aim of conflicts of interest. However, these results contradict the previous study results (Sulaiman & Mat Yasin, 2021), which stated that the formal audit committee's responsibilities make the audit committees observe and monitor the external audit process.

Based on the answers received, it can be seen that in the process related to external audit, namely in the process of providing external auditor recommendations for the board of commissioners, 70% of the audit committee answers that its implementation is only carried out once a year. Not only that, the evaluation of the audit plan from the external auditor is only carried out once every year referring to the answers of 63% of the respondents. This explains that audit committee's responsibility in supervising external audits area has a relatively low frequency.

The research by Compernelle (2018) explains more about the limitations of audit committees in carrying out their role of supervising external auditors. Based on interviews conducted with external auditors in France, it is explained that the accountability of external auditors also tends to be low, which is contrary to the theory and formal responsibilities of the audit committee where external auditors should consider the audit committee as their superior.

This is also due to the role risk, where the audit committee can act as an external auditor if the external auditors view the audit committee as their superior. Another finding was that the audit committee's oversight of the external audit process was deemed inadequate, according to perceptions from external auditors. This supports the findings in this research



although this research uses a statistical approach and takes the perceptions of the audit committees.

### ***Financial Statements Oversight on Audit Committee Effectiveness***

The audit committee's duty in supervising financial statements has proven to not affect their effectiveness based on the results of statistical processing with the PLS-SEM approach. Referring to research by Sulaiman (2017) which interviewed the audit committee, effectiveness will increase accompanied by the fulfillment of responsibilities in the external audit aspect depending on the understanding of the head of the audit committee on the audit, financial statements, and business processes cycle within the company.

In addition, effectiveness also depends on the connection between the audit committee and the company's external auditors. The results in the study contradicted previous research by Almarayeh et al., (2022) which found that audit committees affect financial statements in the aspect of independence, with research methods based on secondary data.

Prior research (Wu et al., 2015) also encourage this result, where stated that the effectiveness of audit committees in China still tends to be symbolic and has no direct impact on the quality of financial statements. Previous research (Sulaiman, 2017) explained that audit committees tend to rely on external parties, such as financial experts and external auditors concerning the assessment of financial reporting and accounting policies implemented by the company.

The audit committee tends to be ineffective may be caused on how passive the relation between audit committee and external auditor. Therefore, efforts must be taken to enhance the evaluation of financial statements, such as increasing the frequency of meetings to evaluate quarterly financial statements to improve their effectiveness. The audit committee also needs to improve its understanding of the presentation of finances and accounting standards applicable in Indonesia in improving the financial statements quality presented by the company, not just relying on assessments from external auditors.

### ***Regulatory Compliance Oversight on Audit Committee Effectiveness***

The audit committee's task relating to the regulatory compliance aspect was found to have a significant influence on their effectiveness. Variables for fulfilling the responsibilities of the audit committee in supervising compliance are reviewed based on two indicators, namely the implementation of socialization or special meetings related to new regulations and the participation of audit committees in seminars/training/workshops related to regulations. The results demonstrate on how the oversight of compliance aspects also measures and affects the audit committee's effectiveness, as stated by Martinov-Bennie et al., (2015) those who found that audit committees have prospects for responsibility in regulatory compliance areas based on interviews conducted with Australian interviewees. However, the statistics found that the audit committee's responsibility for legal compliance aspects negatively impacted or reduced their effectiveness.

This may lead into a significant opinion conflict associated to the audit committee's responsibilities in legal aspect. Based on interviews in the prior study (Martinov-Bennie et al., 2015), as many as two audit committee respondents explained the significance of audit committee members with a background in legal education, as a foundation for carrying out

responsibilities and supervising company compliance. This study also demonstrates that the audit committee's educational background is dominated by business, accounting, and management.

On the other hand, there is also an audit committee that argues that advice or advice related to legal aspects should be carried out independently, namely by asking for the help of third parties who are experts in the field of law. This is also an alternative solution in the absence of an audit committee that has an educational background or experience in the field of law and compliance.

The Indonesian audit committee can implement the same two practices associated to legal and compliance aspects, namely by either involving an audit committee that has an educational background and understanding of legal aspects or can request the services of a third party, namely experts in the field of law, with the main objective of ensuring that the company's compliance has been monitored following the laws regulated in Indonesia to improve the audit committee's effectiveness.

### ***Risk Management Oversight on Audit Committee Effectiveness***

Statistics show that the variable fulfillment of responsibilities related to risk management activities has a significant increase on the audit committee's effectiveness. The results of this study agrees the previous studies (Khemakhem & Fontaine, 2019; Martinov-Bennie et al., 2015) which discussed that the responsibilities of the audit committee will be further expanded in the future, and through the questionnaire in this study, this is also proven to have been fulfilled by audit committees in Indonesia.

Audit committees in Africa also carry out responsibilities in overseeing risk management, which is reviewed from monitoring the risk management process, communicating with management to understand organizational risks that may arise, assessing the misstatement risk of financial statements, understanding strategic risks and their handling along with communication with internal audits and external audits related to risk (van der Nest, 2008).

The supervision carried out by the audit committees also increases their effectiveness and also prevents conflicts of interest that occur within the company. Their roles and responsibilities are not always limited to the regulations set, because even regulations sometimes do not explain in detail and do not develop as rapidly as in reality (Martinov-Bennie et al., 2015). The audit committee has placed risk management as one of the important areas that need scrutiny, as well as recognizing that this is part of its responsibility. Along with the evolution of the practice of risk management implemented in each company, it will also be a concern for the audit committee to ensure that the management has managed optimally, without the risk of conflicts of interest as in agency theory.

### ***Managerial Implication & Policy Recommendation***

Based on the findings above, OJK as the regulator can review and re-evaluate how effective POJK No.55/POJK.04/2015 is in regulating the roles and responsibilities of the audit committee. The existing regulations must be re-assessed and adjusted along with the changing of times and considering that responsibilities on aspects of external audits and

financial statements have not proven effective so that the regulations are relevant to nowadays issues, one of them being the sustainability issue.

OJK may also consider the company's obligations in having an audit committee not only from an accounting educational background but also who has legal educational background and experience to increase the audit committee's effectiveness in fulfilling responsibilities related to regulatory compliance. In addition, with the importance to prove that the audit committee plays their roles actively and effectively, OJK may also set some monitoring aspects of how corporations met the regulations, specifically for their audit committee members.

Not only regulators, but managements of the companies can also reevaluate how the audit committee is actively involved and carries out its responsibilities by applicable regulations. Corporations may develop rules, guidelines, and rules for implementing specific activities and responsibilities of the audit committee, by adjusting the company's situation. One of them is to monitor the audit committee's meetings to discuss the external audit matters and also meetings associated to discuss the financial statements.

With the importance of assessing how effective are the audit committees, each corporate may publish its audit committee records which consist of their annual activities, meetings, and achievements. Another important factor is how the boards in the company must monitor as well as maintain involved the audit committees along with the running business process. Moreover, it is very important to have audit committee members from various kinds of educational backgrounds, such as legal to focus on the regulatory compliance area of the business.

Based on this research's findings, OJK as regulator needs to socialize further regarding audit committee's role and oversight within company. Furthermore, annual training and workshop in specific field regarding financial regulation or laws update can be held for audit committees in Indonesia to ensure they have run their roles effectively. Furthermore, IKAI as an association also can help OJK in ensuring each audit committee has fully understand their roles and responsibility, to ensure their effectiveness in each company. The following improvements may increase the good governance implementation in Indonesia's corporation.

## **Conclusion**

The audit committee has important responsibilities and roles along with the process of implementing good corporate governance in every business environment. This study analyzes how the effect of the activities and fulfillment of the responsibilities of the audit committee on their effectiveness. In conclusion, this research proves how audit committees in Indonesia play an important role within the business environment, contrary to previous research which stated that audit committee tends to have insignificant function.

The statistical analysis results show that the audit committee's involvement in the decision-making process and audit positively impacts the activities it carries out. Regarding effectiveness, it is proven that the activities and fulfillment of responsibilities related to internal audit supervision, external audit, regulatory compliance, and risk management affect the audit committee's effectiveness. On the other hand, the fulfillment of external audit and

financial statements responsibilities were found to have no direct influence on the audit committee's effectiveness. Lastly, audit committee diligence in the decision-making process is also proven to positively influence indirectly on their effectiveness, with the mediating role of audit committee activity, which proves their involvement is important in supporting their effectiveness.

These findings align with the agency theory along with the regulation stated by OJK, where audit committee plays significant role in company as an implementation of good corporate governance mechanism, not just a some formality puppet role. OJK needs to consider further improvement and methods in ensuring the audit committee effectiveness in monitoring the company, ensuring the alignment with corporate governance.

Future researchers can expand this research by considering new aspects such as CSR and involving a more global perception involving parties related to the audit committee, such as the board of commissioners, internal audit units, and external auditors. In addition, using the interview method may help gain a wider understanding and more relevant phenomena about the audit committee's roles and effectiveness.

Since this is such an experimental study to analyze the diligence and effectiveness of audit committee by using the primary data as data source, we noted that the response rate is significantly low that we received both from IKAI and corporate response from their emails. As the data has been assessed statistically by Smart PLS 3 and we do not note any invalidity indication, therefore we processed the following data has been valid. We also want to appreciate for audit committee who have been participating in this research, and we also want to highlight the audit committee awareness in participating in such research is important for Indonesia's corporate governance implementation and improvement in the future.

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